



# WEINLANDER FITZHUGH

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& CONSULTANTS

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BAY-ARENAC ISD  
BAY CITY, MICHIGAN

FINANCIAL STATEMENTS  
JUNE 30, 2008

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## Independent Auditors' Report

October 13, 2008

To the Board of Education  
Bay-Arenac ISD  
Bay City, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bay-Arenac ISD as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Bay-Arenac ISD's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Bay-Arenac ISD as of June 30, 2008, and the respective changes in financial position thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

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# WEINLANDER FITZHUGH

To the Board of Education  
Bay-Arenac ISD  
October 13, 2008  
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2008, on our consideration of the School District's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but is supplemental information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bay-Arenac ISD's basic financial statements. The combining non-major funds financial statements, debt schedules and schedule of expenditures of federal awards are presented for purposes of additional analysis and as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and are not a required part of the basic financial statements. The individual non-major fund financial statements, debt schedules and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Weinlander Fitzhugh*

**BAY-ARENAC ISD**  
**Management's Discussion & Analysis**  
**For the Year Ended June 30, 2008**

Our discussion and analysis of the Bay-Arenac ISD's (school district) financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2008.

**Financial Highlights**

Total revenues for the year were \$35 million. Program revenues accounted for \$14 million or 40% of total revenues, and general revenues accounted for \$21 million or 60%. The School District's net assets increased by \$2,098,000.

The General Fund reported a positive fund balance of approximately \$3.3 million. Fund balance increased \$357,000 this year. The Special Education Fund reported a positive fund balance of approximately \$4.8 million. Fund balance increased \$1.5 million this year. The Vocational Education Fund reported a positive fund balance of approximately \$2.6 million. Fund balance decreased \$1.8 million this year.

**Using this Annual Financial Report**

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Bay-Arenac ISD financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds – the General Fund, Special Education Fund and the Vocational Education Fund with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students. The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- District-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General, Special Education and Vocational Education Funds (Required Supplemental Information)

Other Supplemental Information

**BAY-ARENAC ISD**  
**Management's Discussion & Analysis**  
**For the Year Ended June 30, 2008**

**Reporting the School District as a Whole**

*The Statement of Net Assets and Statement of Activities*

One of the most important questions asked about the School District's finances is, "Is the School District better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the School District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School District's net assets as a way to measure the School District's financial position. The change in net assets provides the reader a tool to assist in determining whether the School District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base, student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of the School District.

**Reporting the School District's Most Significant Funds**

*Fund Financial Statements*

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue. The School District's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

*Governmental Funds*

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

**BAY-ARENAC ISD**  
**Management's Discussion & Analysis**  
**For the Year Ended June 30, 2008**

*Fiduciary Funds*

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate Statement of Fiduciary Net Assets. We exclude these activities from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

**District-wide Financial Analysis**

The statement of net assets provides the perspective of the School District as a whole. Exhibit A provides a summary of the School District's net assets as of June 30, 2008 and 2007:

EXHIBIT A

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Current and other assets	\$ 14,782,967	\$ 13,500,875
Capital assets - net of accumulated depreciation	<u>13,449,258</u>	<u>9,054,361</u>
Total assets	<u>28,232,225</u>	<u>22,555,236</u>
<b>Liabilities</b>		
Current liabilities	3,659,502	3,227,982
Long-term liabilities	<u>4,112,734</u>	<u>965,027</u>
Total liabilities	<u>7,772,236</u>	<u>4,193,009</u>
<b>Net Assets</b>		
Invested in property and equipment - net of related debt	9,210,582	8,176,320
Unrestricted	<u>11,249,407</u>	<u>10,185,907</u>
Total net assets	<u>\$ 20,459,989</u>	<u>\$ 18,362,227</u>



**BAY-ARENAC ISD**  
**Management's Discussion & Analysis**  
**For the Year Ended June 30, 2008**

The analysis, on the previous page, focuses on net assets (see Exhibit A). The School District's net assets were \$ 20.5 million at June 30, 2008. Capital assets, net of related debt, totaling \$9.2 million compares the original costs, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets.

The \$11.2 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General, Special Education and Vocational Education Funds will have a significant impact on the change in unrestricted net assets from year to year.

**BAY-ARENAC ISD**  
**Management's Discussion & Analysis**  
**For the Year Ended June 30, 2008**

The results of this year's operations for the School District as a whole are reported in the statement of activities. Exhibit B shows a summary of the changes in net assets for the years ended June 30, 2008 and 2007:

Exhibit B	Governmental Activities	
	<u>2008</u>	<u>2007</u>
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 2,119,067	\$ 2,152,864
Grants and categoricals	11,821,405	10,436,189
General revenue:		
Property taxes	17,681,691	16,929,217
State aid	2,134,043	2,025,717
Other	875,937	755,868
Total revenue	<u>34,632,143</u>	<u>32,299,855</u>
<b>Function/Program Expenses</b>		
Instruction	12,663,306	13,884,207
Support services	18,160,765	18,090,307
Community services	413,369	440,103
Interest on long-term debt	142,208	2,198
Capital outlay	565,082	0
Amortization	3,129	0
Depreciation (unallocated)	586,522	523,497
Total expenses	<u>32,534,381</u>	<u>32,940,312</u>
<b>Increase (Decrease) in Net Assets</b>	<u>\$ 2,097,762</u>	<u>\$ (640,457)</u>

**BAY-ARENAC ISD**  
**Management's Discussion & Analysis**  
**For the Year Ended June 30, 2008**

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$32.5 million. Certain activities were partially funded from those who benefited from the programs, \$2.1 million, or by the other governments and organizations that subsidized certain programs with grants and categoricals \$11.8 million. We paid for the remaining "public benefit" portion of our governmental activities with \$17.7 million in taxes, \$2.1 million in State aid, and \$876,000 with our other revenues, such as interest and general entitlements. The increase in net assets differs from the change in fund balance and a reconciliation appears in the financial statements.

The increase in net assets is attributable to both the General Fund and the Special Education Fund. Both funds experienced significant change in personnel during 2007-08. Many of these positions remained vacant during the year thereby leaving allocated budget unspent. There was also tightening of the belt in the Special Education Fund in an effort to boost resources available for distribution in support of local school special education programs.

**The School District's Funds**

The School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

The School District's governmental funds reported a combined fund balance of \$11.4 million, which is above last year's total of \$10.4 million. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2008 and 2007.

	Fund Balance June 30, 2008	Fund Balance June 30, 2007	Increase (Decrease)
General	\$ 3,290,628	\$ 2,933,368	\$ 357,260
Special Education	4,775,411	3,276,076	1,499,335
Vocational Education	2,564,944	4,317,201	(1,752,257)
Capital Projects	753,174	(135,592)	888,766
Debt	0	0	0
Total	<u>\$ 11,384,157</u>	<u>\$ 10,391,053</u>	<u>\$ 993,104</u>

- The main functions of the General Fund are focused first and foremost on student achievement. Content teams, representing each local school district within Bay-Arenac ISD's boundaries, review and design curriculum which is aligned to the Michigan Curriculum Frameworks according to a plan developed by the School District's curriculum council. Support services and buildings are available to districts to assist with the implementation of curriculum at individual sites.

**BAY-ARENAC ISD**  
**Management's Discussion & Analysis**  
**For the Year Ended June 30, 2008**

Bay-Arenac ISD develops relevant, comprehensive, and timely professional development to benefit all area administrators and teachers. Presenters include respected experts who address a variety of learning styles and share their best practice

The technology expertise provided by Bay-Arenac ISD is channeled to support technology integration throughout the curriculum at all levels.

During 2007-08 Bay-Arenac ISD initiated a comprehensive program to align curriculum development. The two parts of the program, data warehousing and student assessment, utilize resources in both the curriculum and technology departments.

The revenue for the General Fund was \$2.9 million. This is less than 4% different than the original budget. Total expenditures were \$4.2 million for the fiscal year. Expenditures were lower than originally budgeted by 15%. Other financing sources (uses) were higher than originally budgeted. Together these positive variances account for the increase in fund balance.

- The Special Education Fund at Bay-Arenac ISD utilizes resources to ensure meaningful learning opportunities for students with special needs. Our staff is committed to innovative and compassionate instruction for students within the Bay-Arenac ISD service areas.

The revenue for the Special Education Fund was \$20.3 million. This is more than originally anticipated by \$1.6 million. Actual tax revenues came in a small amount higher than anticipated. As always not all federal monies were expended and this resulted in not all federal revenue being recognized. The expenditures and other financing for the special education fund was \$18.8 million. The expenditures were less than the original expectations. This was due to changes made by administration during the fiscal year.

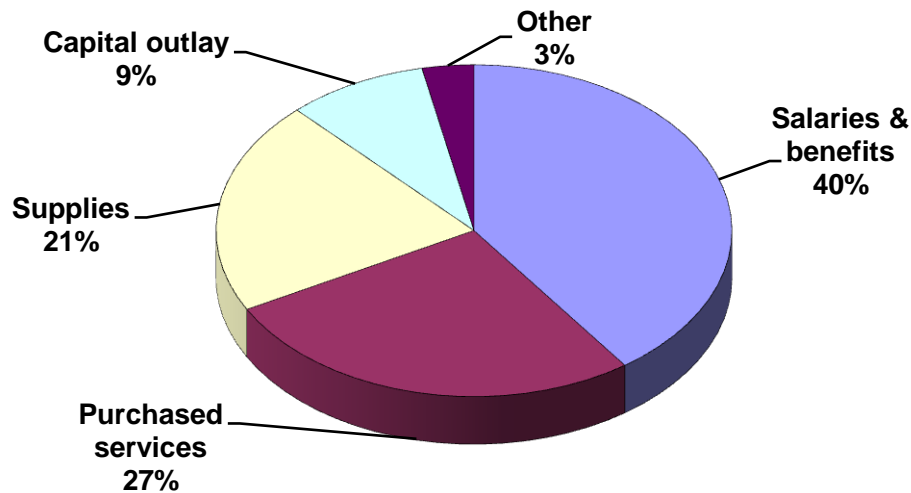
- The Vocational Education Fund offers a wide variety of experiences and specific technical training that gives students an advantage when entering the work force or college. Students enrolled in programs at the Career Center or in any of the four off-site classroom locations may earn industry-standard certifications and college credit. The Vocational Education Fund also offers opportunity to the adult workforce in our community. This includes training/re-training for needed career skills and for personal development.

The revenues for the Vocational Education Fund were \$9.1 million.

The expenditures and other financing for the Vocational Education Fund are \$10.8 million. These amounts are both in line with initial estimates. The only noteworthy changes during the year related to a transfer of \$2,222,966 to the capital improvement and debt funds.

**BAY-ARENAC ISD**  
**Management's Discussion & Analysis**  
**For the Year Ended June 30, 2008**

As the graph below illustrates, the largest portions of General Fund expenditures are for salaries and fringe benefits. The School District by nature is a labor intensive organization.



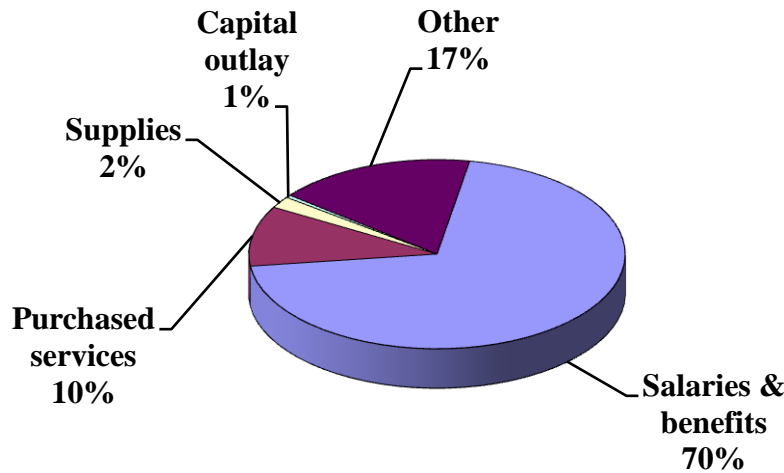
*Expenditures by Object*

Salaries and benefits	\$ 1,728,690
Purchased services	1,167,458
Supplies	898,627
Capital outlay	380,291
Other	139,797
	<hr/>
Total	<u><u>\$ 4,314,863</u></u>

Programs and services are highly dependent on funding other than tax revenue in the General Fund. While revenues from the state increased in 2007-08 there continue to be expenditure restrictions. Combined with many program redesigns, the General Fund has built in cost containment. In addition, more and more contracts are being used to supplement employee activity. Expect this trend to continue in the future.

**BAY-ARENAC ISD**  
**Management's Discussion & Analysis**  
**For the Year Ended June 30, 2008**

As the graph below illustrates, the largest portions of the Special Education Fund expenditures are for salaries and fringe benefits. The School District by nature is a labor intensive organization. The Special Education Fund also reflects a large "other" category. This is comprised almost entirely of transfers out to local school districts in an effort to offset their special education costs.



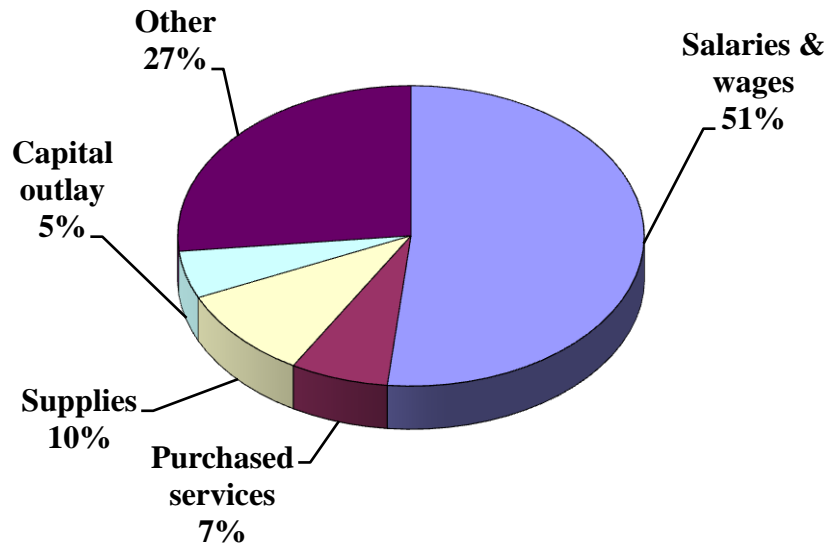
*Expenditures by Object*

Salaries and benefits	\$ 13,190,135
Purchased services	1,937,521
Supplies	374,431
Capital outlay	82,972
Other	3,212,722
	<hr/>
Total	<u><u>\$ 18,797,781</u></u>

For the first time in several years there was no growth in the population requiring special services. The ISD has taken back most of the itinerant staff members from our local districts. This is a great financial benefit to our LEAs but increases the total expenditures of the ISD. During 2007-08, an emotionally impaired classroom was added. There were many expenditure limitations added by administration during the fiscal year.

**BAY-ARENAC ISD**  
**Management's Discussion & Analysis**  
**For the Year Ended June 30, 2008**

As the graph below illustrates, the largest portions of Vocational Education Fund expenditures are for salaries and fringe benefits. The School District by nature is a labor intensive organization.



*Expenditures by Object*

Salaries and benefits	\$ 5,842,465
Purchased services	768,180
Supplies	1,112,854
Capital outlay	577,448
Other	3,016,731
	<hr/>
Total	<u><u>\$ 11,317,678</u></u>

2007-08 was an exciting year in the Vocational Fund. Construction of the new allied health wing was almost completed. This project accounted for \$2 million of the increase in expenditures for the year. 2008-09 looks to be the best year ever for vocational students in Bay and Arenac Counties.

**BAY-ARENAC ISD**  
**Management's Discussion & Analysis**  
**For the Year Ended June 30, 2008**

**Budgetary Highlights**

Over the course of the year, the School District revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. The original budget is developed in January of the preceding fiscal year. For general and special education funds this causes a large variance in budgeting because the grant amounts are not set that far in advance. There is also a great chance that new grants will be added during the course of the year. Added to the normal change and updating of programs, this activity has a notable impact on the annual budget variance. Actual expenditures were less than anticipated due to continued efforts by administration to control costs.

Changes to the General Fund original budget were as follows:

- Budgeted revenues were increased during the fiscal year by \$170,223 or about 6%. The overall change was immaterial.
- Budgeted expenditures were also increased during the fiscal year by \$119,179 or 2%. The overall change of 2% relates to projected changes in programs. Actual expenditures remained less than the original budget.
- Actual expenditures were \$872,527 or about 17 % under budgeted expenditures.

Changes to the Special Education Fund original budget were as follows:

- Budgeted revenues were increased \$1,009,420 or 5%, during the fiscal year. The overall change was immaterial.
- Budgeted expenditures were decreased \$757,655 or 5%, during the fiscal year. The overall change was immaterial.
- Actual expenditures were \$343,031 or about 2% under budgeted expenditures.

Changes to the Vocational Education Fund original budget were as follows:

- Budgeted revenues were increased \$35,967 or 0.4% during the fiscal year. The overall change was immaterial.
- Budgeted expenditures were increased \$234,818 or about 3%. The overall change was immaterial.
- Actual expenditures were \$502,868 or about 6% under budgeted expenditures.



**BAY-ARENAC ISD**  
**Management's Discussion & Analysis**  
**For the Year Ended June 30, 2008**

**Capital Assets**

At June 30, 2008, the School District had \$13.4 million invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents an increase (including additions and disposals) of approximately \$4,335,000, or 48%, from last year.

	<u>2008</u>	<u>2007</u>
Land and construction in progress	\$ 4,828,692	\$ 494,326
Buildings	13,905,371	13,576,313
Furniture and equipment	<u>2,600,341</u>	<u>3,939,484</u>
 Total capital assets	✔ 21,334,404	✔ 18,010,123
 Less accumulated depreciation	<u>7,944,598</u>	<u>8,955,762</u>
 Net capital assets	<u><u>\$ 13,389,806</u></u>	<u><u>\$ 9,054,361</u></u>

This year's additions included equipment, technology, and building renovations.

We anticipate capital additions during 2008-09 to include equipment, technology and building renovations. During 2006-07, Bay-Arenac began an Allied Health wing addition to the Career Center. This addition's estimated cost is \$6.5 million. \$3.5 million was financed with a bond issue with the rest coming from fund balance.

**BAY-ARENAC ISD**  
**Management's Discussion & Analysis**  
**For the Year Ended June 30, 2008**

**Debt**

At the end of this year, the School District had \$4.3 million in long-term debt outstanding versus \$1.1 million in the previous year. General Obligation Bonds were increased \$3,295,000 during the fiscal year. Those bonds consisted of the following:

	<u>2008</u>	<u>2007</u>
Durant Bonds	\$ 756,216	\$ 756,216
GO Tech Bonds	0	90,000
Building and site Bonds	3,385,000	0
	<u>\$ 4,141,216</u>	<u>\$ 846,216</u>

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The School District's outstanding unqualified general obligation debt is significantly below the statutorily imposed limit. There was also an addition in the total amount of compensated absences this fiscal year.

**Factors Expected to have an Effect on Future Operations**

Our elected Board and administration consider many factors when setting the School District's 2009 fiscal year budget. The School District continues to be very strong financially. This strength has given us the ability to weather the funding environment we are currently in. Funding for the General Fund decreased slightly during 2007-08. The Special Education Fund continues to experience moderate growth. Significant changes were made to address financial issues during 2007-08. The Vocational Education fund is very solid financially. Several programs will be eliminated or redesigned to provide funding for the new programs that will reside in the new allied health wing

The School District continued implementation of a 3-5 year capital improvement program developed during 2005-06. The BAISD will build on its solid infrastructure and equipment base. Much needed upgrades to the ESC will continue during 2008-09. The Career Center will continue building the \$6.5 million Allied Health wing. The wing is scheduled to open in September of 2008.

**Requests For Information**

This financial report is designed to provide a general overview of the School District's finances for all those with an interest in the School District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Business Office  
Bay-Arenac ISD  
4228 Two Mile Road  
Bay City, MI 48706-2397

BAY-ARENAC ISD  
Statement of Net Assets  
June 30, 2008

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and investments	\$ 11,617,099
Receivables:	
Taxes	9,441
Accounts receivable	303,256
Due from other governmental units	2,259,321
Inventories	346,937
Prepaid expenses	246,913
Bond issuance costs less accumulated amortization of \$3,129	59,452
Capital assets less accumulated depreciation of \$7,944,598	<u>13,389,806</u>
 Total assets	 <u>28,232,225</u>
 <u>Liabilities</u>	
Accounts payable	840,389
Accrued payroll and other liabilities	1,868,706
Internal balances	10,059
Interest payable	34,340
Deferred revenue	679,656
Long-term liabilities:	
Due within one year	226,352
Due in more than one year	<u>4,112,734</u>
Total liabilities	<u>7,772,236</u>
 <u>Net Assets</u>	
Investment in capital assets - net of related debt	9,210,582
Unrestricted	<u>11,249,407</u>
 Total net assets	 <u><u>\$ 20,459,989</u></u>

See accompanying notes to financial statements.

BAY-ARENAC ISD  
Statement of Activities  
For the Year Ended June 30, 2008

		Program Revenues		Governmental
		Charges for Services	Operating Grants/ Contributions	Activities
<u>Functions/Programs</u>	<u>Expenses</u>			Net (Expense) Revenue and Changes in Net Assets
Governmental activities:				
Instruction	\$ 12,663,306	\$ 353,320	\$ 2,751,463	\$ (9,558,523)
Support services	18,160,765	1,765,747	8,662,604	(7,732,414)
Community services	413,369	0	407,338	(6,031)
Interest on long-term debt	142,208	0	0	(142,208)
Capital outlay	565,082	0	0	(565,082)
Amortization	3,129	0	0	(3,129)
Depreciation (unallocated)	586,522	0	0	(586,522)
Total governmental activities	<u>\$ 32,534,381</u>	<u>\$ 2,119,067</u>	<u>\$ 11,821,405</u>	<u>(18,593,909)</u>
General revenues:				
Property taxes, levied for general purposes				17,681,691
State aid not restricted to specific purposes				2,134,043
Interest and investment earnings				571,178
Other				304,759
Total general revenues				<u>20,691,671</u>
Change in net assets				2,097,762
Net assets - beginning of year				<u>18,362,227</u>
Net assets - end of year				<u>\$ 20,459,989</u>

See accompanying notes to financial statements.

BAY-ARENAC ISD  
Governmental Funds  
Balance Sheet  
June 30, 2008

	General	Special Education	Vocational Education	Capital Projects	Other Nonmajor Governmental Funds	Total
<u>Assets</u>						
Cash and investments	\$ 4,624,864	\$ 4,013,155	\$ 1,983,787	\$ 995,293	\$ 0	\$ 11,617,099
Receivables:						
Taxes	363	5,447	3,631	0	0	9,441
Accounts receivable	163,696	5,174	47,365	0	0	216,235
Miscellaneous receivable	81,074	174	5,761	12	0	87,021
Due from other funds	0	772,047	464,390	0	0	1,236,437
Due from other governmental units	370,777	1,554,682	333,862	0	0	2,259,321
Inventories	21,159	0	325,778	0	0	346,937
Prepaid expenditures	49,684	94,470	102,759	0	0	246,913
Total assets	<u>\$ 5,311,617</u>	<u>\$ 6,445,149</u>	<u>\$ 3,267,333</u>	<u>\$ 995,305</u>	<u>\$ 0</u>	<u>\$ 16,019,404</u>
<u>Liabilities and Fund Balance</u>						
<u>Liabilities</u>						
Accounts payable	\$ 178,493	\$ 184,771	\$ 244,976	\$ 232,149	\$ 0	\$ 840,389
Accrued payroll and other liabilities	2,501	1,412,067	454,138	0	0	1,868,706
Due to other funds	1,236,514	0	0	9,982	0	1,246,496
Deferred revenue	603,481	72,900	3,275	0	0	679,656
Total liabilities	<u>2,020,989</u>	<u>1,669,738</u>	<u>702,389</u>	<u>242,131</u>	<u>0</u>	<u>4,635,247</u>
<u>Fund Balance</u>						
Reserved for inventories and prepaid expenditures	70,843	94,470	428,537	0	0	593,850
Designated for medicaid administration outreach	381,344	0	0	0	0	381,344
Unreserved/undesignated	2,838,441	4,680,941	2,136,407	753,174	0	10,408,963
Total fund balance	<u>3,290,628</u>	<u>4,775,411</u>	<u>2,564,944</u>	<u>753,174</u>	<u>0</u>	<u>11,384,157</u>
Total liabilities and fund balance	<u>\$ 5,311,617</u>	<u>\$ 6,445,149</u>	<u>\$ 3,267,333</u>	<u>\$ 995,305</u>	<u>\$ 0</u>	<u>\$ 16,019,404</u>

See accompanying notes to financial statements.

BAY-ARENAC ISD  
Reconciliation of Balance Sheet of Governmental Funds  
to the Statement of Net Assets  
June 30, 2008

Total fund balance - governmental funds	\$ 11,384,157
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds:	
Cost of the capital assets	21,334,404
Accumulated depreciation	(7,944,598)
Bond issuance costs	62,581
Accumulated amortization	(3,129)
Accrued interest payable expense used in the governmental activities is not payable from current resources and therefore is not reported in the governmental funds	(34,340)
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds:	
Bonds, notes and capital leases	(4,144,884)
Compensated absences	<u>(194,202)</u>
Total net assets - governmental activities	<u><u>\$ 20,459,989</u></u>

See accompanying notes to financial statements.

BAY-ARENAC ISD  
Governmental Funds  
Statement of Revenue, Expenditures and Changes in Fund Balance  
For the Year Ended June 30, 2008

	General	Special Education	Vocational Education	Capital Projects	Other Nonmajor Governmental Funds	Totals
<u>Revenue</u>						
Local sources:						
Property taxes	\$ 678,975	\$ 10,202,340	\$ 6,800,377	\$ 0	\$ 0	\$ 17,681,692
Other	585,179	1,293,685	574,021	101,882	0	2,554,767
State sources	1,527,942	4,439,097	813,960	0	0	6,780,999
Federal sources	149,942	4,361,512	906,455	0	0	5,417,909
Total revenue	2,942,038	20,296,634	9,094,813	101,882	0	32,435,367
<u>Expenditures</u>						
Current:						
Instruction	0	4,667,094	4,413,561	0	0	9,080,655
Support services	3,935,017	10,728,964	3,742,954	2,789	0	18,409,724
Community services	214,400	198,969	0	0	0	413,369
Capital outlay	61,695	12,322	289,868	4,647,746	0	5,011,631
Debt service:						
Principal	0	0	0	0	205,000	205,000
Interest	0	0	0	0	111,881	111,881
Bond issuance cost and fees	0	0	0	62,581	0	62,581
Total expenditures	4,211,112	15,607,349	8,446,383	4,713,116	316,881	33,294,841
Excess (deficiency) of revenue over expenditures	0 (1,269,074)	4,689,285	648,430	(4,611,234)	(316,881)	(859,474)
<u>Other Financing Sources (Uses)</u>						
Bond proceeds	0	0	0	3,500,000	0	3,500,000
Operating transfers in:						
Transfers in from other governmental units	1,730,085	482	470,608	0	0	2,201,175
Transfers in from other funds	0	0	0	2,000,000	316,881	2,316,881
Operating transfers out:						
Transfers out to other governmental units	(9,836)	(3,190,432)	(648,329)	0	0	(3,848,597)
Transfers out to other funds	(93,915)	0	(2,222,966)	0	0	(2,316,881)
Total other financing sources (uses)	1,626,334	(3,189,950)	(2,400,687)	5,500,000	316,881	1,852,578
Net change in fund balance	357,260	1,499,335	(1,752,257)	888,766	0	993,104
Fund balance - beginning of year	2,933,368	3,276,076	4,317,201	(135,592)	0	10,391,053
Fund balance - end of year	\$ 3,290,628	\$ 4,775,411	\$ 2,564,944	\$ 753,174	\$ 0	\$ 11,384,157

See accompanying notes to financial statements.

BAY-ARENAC ISD  
Reconciliation of the Statement of Revenue, Expenditures and  
Changes in Fund Balance of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2008

Net change in fund balance - total governmental funds	\$ 993,104
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	
Depreciation expense	(586,522)
Capital outlay	4,926,366
Amortization	(3,129)
Loss on the disposal of capital assets are are not reported in the governmental funds; they are recorded on the statement of activities in the year they occur	(4,399)
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets	(3,500,000)
Interest on long-term debt is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	(30,327)
Repayment of bond, note and capital lease principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	229,144
Net bond issuance costs is an expenditure in the governmental funds, but not in the statement of activities	62,581
Decrease in compensated absences are reported as a subtraction to expenditures when financial resources are provided in the governmental funds in accordance with GASB Interpretation No. 6	10,944
Change in net assets of governmental activities	<u><u>\$ 2,097,762</u></u>

See accompanying notes to financial statements.



BAY-ARENAC ISD  
Fiduciary Fund  
Statement of Fiduciary Net Assets  
June 30, 2008

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and investments	\$ 60,883
Due from other funds	<u>10,059</u>
Total Assets	<u><u>\$ 70,942</u></u>
<u>LIABILITIES</u>	
Due to student groups	<u><u>\$ 70,942</u></u>

See accompanying notes to financial statements.

**BAY-ARENAC ISD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Bay-Arenac ISD (“School District”) conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

**Reporting Entity**

The School District is governed by an elected Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District’s reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

**District-wide and Fund Financial Statements**

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District’s government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**BAY-ARENAC ISD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

**District-wide Statements** – The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

**Fund-based Statements** – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

**General Fund** – The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

**Special Education Fund** – The Special Education Fund is used to record all transactions associated with special education programs administered by the School District.

**BAY-ARENAC ISD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Vocational Education Fund** – The Vocational Education Fund is used to record all transactions associated with all vocational and Career Center programs administered by the School District.

**Capital Projects Fund** – The Capital Projects Fund is used to record all transactions associated with all construction on the Allied Health Wing at the Career Center.

**Assets, Liabilities, and Net Assets or Equity**

**Deposits and Investments** – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at cost which approximates market.

**Receivables and Payables** – In general, outstanding balances between funds are reported as “due to/from other funds”. Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds”.

**Inventories and Prepaid Items** – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

**Bond Issuance Costs** - Bond issuance costs are reflected only in the district-wide financial statements and are being amortized over a twenty-year period. Accumulated amortization at June 30, 2008, is \$3,129.

**Capital Assets** – Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10-50 years
Furniture and equipment	5-15 years

**BAY-ARENAC ISD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Compensated Absences** – The liability for compensated absences reported in the district-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**Long-term Obligations** – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

**Fund Equity** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Property Taxes** – For Bay-Arenac ISD taxpayers, properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1 and/or December 31 of the following year. The final collection date is February 28, after which uncollected taxes are added to the County delinquent tax rolls.

**State Aid** – The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

**NOTE 2 – BUDGETS**

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of school districts prior to the expenditure of monies in a fiscal year.

Bay-Arenac ISD follows these procedures in establishing the budgetary data reflected in the financial statements.

**BAY-ARENAC ISD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2008**

**NOTE 2 – BUDGETS (CONTINUED)**

1. The School District's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the functional level.
4. Appropriations lapse at year-end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General, Special Education and Vocational Education Funds are presented as Required Supplemental Information.

During the year ended June 30, 2008, the School District incurred revenues and expenditures in certain budgetary funds that were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Budget</u>	<u>Actual Amount</u>	<u>Budget Variance</u>
General Fund			
Revenues:			
State sources	\$ 1,563,605	\$ 1,527,942	\$ 35,663
Federal sources	251,634	149,942	101,692
Operating transfers in from other governmental units	2,063,855	1,730,085	333,770
Special Education Fund:			
Revenues:			
Federal sources	4,518,737	4,361,512	157,225
Expenditures:			
Transportation	509,426	555,664	46,238
Other Financing Sources:			
Operating transfers in from other governmental units	59,480	482	58,998
Vocational Education:			
Revenues:			
Other	640,029	574,021	66,008
State sources	826,980	813,960	13,020
Expenditures:			
Capital outlay	287,119	289,868	2,749
Other Financing Sources:			
Operating transfers in from other governmental units	556,158	470,608	85,550

**BAY-ARENAC ISD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2008**

**NOTE 3 – DEPOSITS AND INVESTMENTS**

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and investments	<u>\$ 11,617,099</u>	<u>\$ 60,883</u>	<u>\$ 11,677,982</u>

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 11,677,852
Petty cash and cash on hand	<u>130</u>
Total	<u>\$ 11,677,982</u>

**Custodial Credit Risk – Deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2008, \$12,836,121 of the School District's bank balance of \$12,936,121 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Interest Rate Risk**

In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations.

**BAY-ARENAC ISD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2008**

**NOTE 4 – CAPITAL ASSETS**

A summary of changes in Governmental capital assets follows:

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Assets not being depreciated:				
Land	\$ 40,000	\$ 0	\$ 0	\$ 40,000
Construction in progress	454,326	4,343,372	9,006	4,788,692
Subtotal	494,326	4,343,372	9,006	4,828,692
Capital assets being depreciated:				
Buildings and improvements	13,576,313	329,058	0	13,905,371
Furniture and equipment	3,939,484	262,942	1,602,085	2,600,341
Subtotal	17,515,797	592,000	1,602,085	16,505,712
Accumulated depreciation:				
Buildings and improvements	5,947,641	422,482	0	6,370,123
Furniture and equipment	3,008,121	164,040	1,597,686	1,574,475
Subtotal	8,955,762	586,522	1,597,686	7,944,598
Net capital assets being depreciated	8,560,035	5,478	4,399	8,561,114
Net capital assets	<u>\$ 9,054,361</u>	<u>\$ 4,348,850</u>	<u>\$ 13,405</u>	<u>\$ 13,389,806</u>

Depreciation for fiscal year ended June 30, 2008 amounted to \$586,522. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.



BAY-ARENAC ISD  
Notes to Financial Statements  
For the Year Ended June 30, 2008

**NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS**

A summary of inter-fund receivable and payable balances at June 30, 2008 and transfers made during the year ended June 30, 2008 is as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 0	\$ 1,236,514	\$ 0	\$ 93,915
Special Revenue:				
Vocational Education	464,390	0	0	2,222,966
Special Education	772,047	0	0	0
Capital Projects	0	9,982	2,000,000	0
Debt	0	0	316,881	0
Fiduciary Fund	<u>10,059</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>\$1,246,496</u>	<u>\$ 1,246,496</u>	<u>\$ 2,316,881</u>	<u>\$2,316,881</u>

These inter-fund receivable and payable balances resulted from the time lag between the dates that (1) inter-fund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

Transfers are used to reflect funding support for debt service and capital outlay.

**NOTE 6 – RECEIVABLES**

Receivables at June 30, 2008, consist of taxes, accounts (fees), intergovernmental grants and interest.

A summary of the intergovernmental receivables (due from other governmental units) follows:

State Aid	\$ 1,187,363
Federal Grants	<u>1,071,958</u>
	<u>\$ 2,259,321</u>

**BAY-ARENAC ISD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2008**

**NOTE 7 – DEFERRED REVENUE**

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year deferred revenue consists of the following:

Imagination Library	
Early childhood literacy programs	\$ 484,941
Grants and state aid	<u>194,715</u>
Total	<u><u>\$ 679,656</u></u>

**NOTE 8 – LONG-TERM DEBT**

The following is a summary of governmental long-term obligations for the School District for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Retirements and Payments	Balance June 30, 2008	Amount Due Within One Year
Bonds	\$ 846,216	\$ 3,500,000	\$ 205,000	\$ 4,141,216	\$ 222,684
Notes payable	25,568	0	21,900	3,668	3,668
Capital leases	2,244	0	2,244	0	0
Compensated absences	<u>205,146</u>	<u>0</u>	<u>10,944</u>	<u>194,202</u>	<u>0</u>
Total	<u><u>\$ 1,079,174</u></u>	<u><u>\$ 3,500,000</u></u>	<u><u>\$ 240,088</u></u>	<u><u>\$ 4,339,086</u></u>	<u><u>\$ 226,352</u></u>

**BAY-ARENAC ISD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2008**

**NOTE 8 – LONG-TERM DEBT (CONTINUED)**

Bonds and notes payable at June 30, 2008 is comprised of the following issues:

\$2,440,906 Durant Non-Plaintiff serial bonds due in							
annual installments of \$93,538 to \$299,122 through							
May 15, 2013; original interest stated at 4.76%						\$ 756,216	
\$119,723 National City installment note due in							
monthly installments of \$1,878, including interest							
through August, 2008; interest at 4.10%						3,668	
\$3,500,000 2007 School Building and Site Bond due							
in yearly installments of \$115,000 to \$250,000							
through May 1, 2027, interest at 4.00% to 4.20%						3,385,000	
						\$ 4,144,884	

The Durant Non-Plaintiff bond, including interest, was issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

The Durant Non-Plaintiff bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitations. This Bond is payable both as to principal and interest solely from the State Aid payments described above.

BAY-ARENAC ISD  
Notes to Financial Statements  
For the Year Ended June 30, 2008

**NOTE 8 – LONG-TERM DEBT (CONTINUED)**

The School District has entered into long-term lease agreements for equipment, which have been classified as capital leases. Depreciation of this equipment is included in depreciation expense.

Under the terms of the present contracts between the Board of Education of Bay-Arenac ISD and the various employee associations, the School District is contingently liable for unused sick and vacation days. Each employee may accumulate various numbers of sick and vacation days and it must be paid to them upon retirement. At June 30, 2008, a liability of \$194,202 has been recorded in the district-wide financial statements.

The annual requirements to amortize bonds, notes and capital leases outstanding as of June 30, 2008 including interest payments are as follows:

Year Ended June 30	Principal	Interest	Total
2009	\$ 226,352	\$ 165,781	\$ 392,133
2010	424,122	223,630	647,752
2011	242,691	145,950	388,641
2012	253,050	135,384	388,434
2013	263,669	124,363	388,032
2014-2018	800,000	503,175	1,303,175
2019-2023	990,000	325,600	1,315,600
2024-2027	945,000	101,010	1,046,010
	<u>\$4,144,884</u>	<u>\$ 1,724,893</u>	<u>\$ 5,869,777</u>

**BAY-ARENAC ISD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2008**

**NOTE 9 – RISK MANAGEMENT**

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for medical claims and participates in the SET-SEG risk pool for claims relating to workers' compensation, general liability, and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

The SET-SEG shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

**NOTE 10 – DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**

**Plan Description** – The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

**Funding Policy** – Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 17.74% for the period from July 1, 2007 to September 30, 2007 and 16.72% for the period from October 1, 2007 through June 30, 2008 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPERS plan for the years ended June 30, 2008, 2007 and 2006 were \$2,246,891, \$2,266,483 and \$1,952,733 respectively.

**Postemployment Benefits** – Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental, and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPERS plan discussed above.

**BAY-ARENAC ISD**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2008**

**NOTE 11 - GRANTS**

The School District receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the School District's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. Based on prior experience, the School District administration believes such disallowance, if any, would be immaterial.

BAY-ARENAC ISD  
Required Supplemental Information  
Budgetary Comparison Schedule - General Fund  
For the Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual
<u>Revenue</u>			
Local sources:			
Property taxes	\$ 661,228	\$ 661,228	\$ 678,975
Other	412,450	557,922	585,179
State sources	1,468,049	1,563,605	1,527,942
Federal sources	322,439	251,634	149,942
Total revenue	2,864,166	3,034,389	2,942,038
<u>Expenditures</u>			
Support services:			
Pupil	282,878	244,098	151,780
Instructional staff	2,906,493	2,664,247	2,217,282
General administration	160,045	200,230	190,795
Business services	471,832	538,693	506,714
Operation and maintenance	274,825	222,002	194,213
Other	536,994	762,939	674,233
Community services	233,393	367,594	214,400
Capital Outlay	98,000	83,836	61,695
Total expenditures	4,964,460	5,083,639	4,211,112
Excess (deficiency) of revenue over expenditures	(2,100,294)	(2,049,250)	(1,269,074)
<u>Other Financing Sources (Uses)</u>			
Operating transfers in from other governmental units	1,844,260	2,063,855	1,730,085
Operating transfers out:			
Transfers out to other governmental units	(137,605)	(119,560)	(9,836)
Transfers out to other funds	(119,153)	(119,435)	(93,915)
Total other financing sources (uses)	1,587,502	1,824,860	1,626,334
Net change in fund balance	(512,792)	(224,390)	357,260
Fund balance - beginning of year	2,933,368	2,933,368	2,933,368
Fund balance - end of year	\$ 2,420,576	\$ 2,708,978	\$ 3,290,628

BAY-ARENAC ISD  
Required Supplemental Information  
Budgetary Comparison Schedule - Special Education Fund  
For the Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual
<u>Revenue</u>			
Local sources:			
Property taxes	\$ 9,928,775	\$ 9,928,775	\$ 10,202,340
Other	1,119,847	1,150,683	1,293,685
State sources	2,945,105	4,272,672	4,439,097
Federal sources	4,867,720	4,518,737	4,361,512
Total revenue	18,861,447	19,870,867	20,296,634
<u>Expenditures</u>			
Instruction:			
Basic programs	4,866,935	4,766,942	4,667,094
Support services:			
Pupil	7,751,746	7,642,082	7,634,370
Instructional staff	1,896,308	1,418,329	1,313,349
General administration	93,488	119,120	110,036
Business services	381,877	384,386	347,829
Operation and maintenance	382,984	371,101	293,428
Transportation	534,171	509,426	555,664
Other	557,926	515,382	474,288
Community services	211,760	205,477	198,969
Capital outlay	30,840	18,135	12,322
Total expenditures	16,708,035	15,950,380	15,607,349
Excess (deficiency) of revenue over expenditures	2,153,412	3,920,487	4,689,285
<u>Other Financing Sources (Uses)</u>			
Operating transfers in from other governmental units	195,805	59,480	482
Operating transfers out to other governmental units	(3,872,056)	(3,453,658)	(3,190,432)
Total other financing sources (uses)	(3,676,251)	(3,394,178)	(3,189,950)
Net change in fund balance	(1,522,839)	526,309	1,499,335
Fund balance - beginning of year	3,276,076	3,276,076	3,276,076
Fund balance - end of year	\$ 1,753,237	\$ 3,802,385	\$ 4,775,411



BAY-ARENAC ISD  
Required Supplemental Information  
Budgetary Comparison Schedule - Vocational Education Fund  
For the Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual
<u>Revenue</u>			
Local sources:			
Property taxes	\$ 6,621,147	\$ 6,621,147	\$ 6,800,377
Other	635,909	640,029	574,021
State sources	797,131	826,980	813,960
Federal sources	904,457	906,455	906,455
Total revenue	<u>8,958,644</u>	<u>8,994,611</u>	<u>9,094,813</u>
<u>Expenditures</u>			
Instruction:			
Basic programs	4,534,234	4,648,331	4,413,561
Support services:			
Pupil	1,101,865	1,153,252	1,120,432
Instructional staff	252,977	165,220	156,595
General administration	100,899	119,883	105,841
School administration	942,892	1,026,605	982,738
Business services	185,630	201,567	194,428
Operations and maintenance	988,803	1,046,718	921,477
Transportation	38,000	50,000	33,773
Other	273,632	250,556	227,670
Capital outlay	295,501	287,119	289,868
Total expenditures	<u>8,714,433</u>	<u>8,949,251</u>	<u>8,446,383</u>
Excess (deficiency) of revenue over expenditures	<u>244,211</u>	<u>45,360</u>	<u>648,430</u>
<u>Other Financing Sources (Uses)</u>			
Operating transfers in from other governmental units	375,410	556,158	470,608
Operating transfers out:			
Transfers out to other governmental units	(648,329)	(648,329)	(648,329)
Transfers out to other funds	0	(2,222,966)	(2,222,966)
Total other financing sources (uses)	<u>(272,919)</u>	<u>(2,315,137)</u>	<u>(2,400,687)</u>
Net change in fund balance	(28,708)	(2,269,777)	(1,752,257)
Fund balance - beginning of year	<u>4,317,201</u>	<u>4,317,201</u>	<u>4,317,201</u>
Fund balance - end of year	<u>\$ 4,288,493</u>	<u>\$ 2,047,424</u>	<u>\$ 2,564,944</u>

BAY-ARENAC ISD  
Other Supplemental Information  
Combining Statement of Revenue, Expenditures  
and Changes in Fund Balance - Nonmajor Governmental Funds  
For the Year Ended June 30, 2008

	1998 Technology Bonds	1998 Durant Bonds	2007 Site Bonds	Total
<u>Revenue</u>				
State aid	\$ 0	\$ 0	\$ 0	\$ 0
<u>Expenditures</u>				
Debt service:				
Bond principal	90,000	0	115,000	205,000
Interest and other	3,915	0	107,966	111,881
Total expenditures	93,915	0	222,966	316,881
Excess (deficiency) of revenue over expenditures	(93,915)	0	(222,966)	(316,881)
<u>Other Financing Sources (Uses)</u>				
Transfers in from other funds	93,915	0	222,966	316,881
Net change in fund balance	0	0	0	0
Fund balance - beginning of year	0	0	0	0
Fund balance (deficit) - end of year	\$ 0	\$ 0	\$ 0	\$ 0

BAY-ARENAC ISD  
Other Supplemental Information  
Schedule of Indebtedness - 1998 Technology Bonds  
For the Year Ended June 30, 2008

<u>DATE OF ISSUE</u>	September 15, 1998		
<u>AMOUNT OF ISSUE</u>			\$ 700,000
<u>AMOUNT OF RETIRED</u>			
	During prior years	\$ 610,000	
	During current year	<u>90,000</u>	<u>700,000</u>
<u>BALANCE OUTSTANDING - June 30, 2008</u>			<u><u>\$ 0</u></u>

<u>DATE OF ISSUE</u>	November 24, 1998		
<u>AMOUNT OF ISSUE</u>			\$ 1,845,060
<u>AMOUNT OF RETIRED</u>			
	During prior years	\$ 1,088,844	
	During current year	<u>0</u>	<u>1,088,844</u>
<u>BALANCE OUTSTANDING - June 30, 2008</u>			\$ 756,216

<u>Fiscal Year</u>	<u>Requirements</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 102,684	\$ 26,886	\$ 129,570
2010	299,122	89,555	388,677
2011	112,691	16,875	129,566
2012	118,050	11,509	129,559
2013	123,669	5,888	129,557
	<u>\$ 756,216</u>	<u>\$ 150,713</u>	<u>\$ 906,929</u>

BAY-ARENAC ISD  
Other Supplemental Information  
Schedule of Indebtedness - 2002 Installment Note  
For the Year Ended June 30, 2008

DATE OF ISSUE August 28, 2002

AMOUNT OF ISSUE \$ 119,723

<u>AMOUNT OF RETIRED</u>	During prior years	\$ 94,155	
	During current year	<u>21,900</u>	<u>116,055</u>

<u>BALANCE OUTSTANDING - June 30, 2008</u>		<u>\$ 3,668</u>
--	--	-----------------

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	4.10%	<u>\$ 3,668</u>	<u>\$ 19</u>	<u>\$ 3,687</u>
		<u>\$ 3,668</u>	<u>\$ 19</u>	<u>\$ 3,687</u>

<u>DATE OF ISSUE</u>	August 1, 2007		
<u>AMOUNT OF ISSUE</u>			\$ 3,500,000
<u>AMOUNT OF RETIRED</u>			
	During prior years	\$ 0	
	During current year	<u>115,000</u>	<u>115,000</u>
<u>BALANCE OUTSTANDING - June 30, 2008</u>			<u>\$ 3,385,000</u>

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	4.0%	\$ 120,000	\$ 138,875	\$ 258,875
2010	4.0%	125,000	134,075	259,075
2011	4.0%	130,000	129,075	259,075
2012	4.0%	135,000	123,875	258,875
2013	4.0%	140,000	118,475	258,475
2014-2018	4.0%	800,000	503,175	1,303,175
2019-2023	4.1%	990,000	325,600	1,315,600
2024-2027	4.2%	945,000	101,010	1,046,010
		<u>\$3,385,000</u>	<u>\$1,574,160</u>	<u>\$4,959,160</u>



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# WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

October 13, 2008

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education  
Bay-Arenac ISD  
Bay City, Michigan

We have audited the financial statements of Bay-Arenac ISD as of and for the year ended June 30, 2008, and have issued our report thereon dated October 13, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bay-Arenac ISD's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bay-Arenac ISD's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bay-Arenac ISD's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control over financial reporting.

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# WEINLANDER FITZHUGH

Board of Education  
Bay-Arenac ISD  
October 13, 2008

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bay-Arenac ISD's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect of the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, Board of Education, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Weinlander Fitzhugh*





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October 13, 2008

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education  
Bay-Arenac ISD  
Bay City, Michigan

### Compliance

We have audited the compliance of Bay-Arenac ISD with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Bay-Arenac ISD's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questionable costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Bay-Arenac ISD's management. Our responsibility is to express an opinion on Bay-Arenac ISD's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bay-Arenac ISD's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Bay-Arenac ISD's compliance with those requirements.

In our opinion, Bay-Arenac ISD complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the ended June 30, 2008.

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# WEINLANDER FITZHUGH

Board of Education  
Bay-Arenac ISD  
October 13, 2008

## Internal Control Over Compliance

The management of Bay-Arenac ISD is responsible for establishing and maintaining effective internal control over compliance with the requirement of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Bay-Arenac ISD's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the School District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Board of Education, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Weinlander Fitzhugh*

BAY-ARENAC ISD  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2008

**SECTION I - Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued: Unqualified opinion

Internal control over financial reporting:

- Material weakness(es) identified? ☐ YES ☒ NO
- Significant deficiency(ies) identified not considered to be Material weaknesses? ☐ YES ☒ NO

Noncompliance material to financial statements noted? ☐ YES ☒ NO

Federal Awards

Internal Control over major programs:

- Material weakness(es) identified? ☐ YES ☒ NO
- Significant deficiency(ies) identified not considered to be material weaknesses? ☐ YES ☒ NO

Type of auditor's report issued on compliance for major programs: Unqualified opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133? ☐ YES ☒ NO

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027	Handicapped Preschool and School
84.173	Preschool Grant
84.048	Career and Technical Education - Basic Grants to States

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes   no

**BAY-ARENAC ISD**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2008**

**SECTION II - Financial Statement Findings**

There are no matters reported.

**SECTION III - Federal Award Findings and Questioned Costs**

There are no matters reported.

BAY-ARENAC ISD  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2008

Federal Grantor or Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2007	Adjustments and Transfers	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued or (Deferred) Revenue at June 30, 2008
<u>U. S. Department of Education</u>								
Passed through the Michigan Department of Education:								
Education Deprived Children	84.010							
0617000506		\$ 32,142	\$ 13,211	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
0617000607		56,946	35,575	8,476	0	8,476	0	0
0717000607		88,345	10,833	1,210	0	3,759	2,549	0
0817000708		54,735	0	0	0	0	26,928	26,928
			59,619	9,686	0	12,235	29,477	26,929
Handicapped Preschool and School	84.027							
0604500506		3,781,482	192,081	28,075	0	28,075	0	0
0704500607		3,785,300	3,623,533	464,684	0	609,489	161,767	16,962
070490 TS		70,000	70,000	12,873	0	12,873	0	0
0804500708		3,811,513	0	0	0	2,977,080	3,672,309	695,228
080480 EOSD		50,000	0	0	0	50,000	50,000	0
080490 TS		60,000	0	0	0	30,000	60,000	30,000
			3,885,614	505,632	0	3,707,518	3,944,076	742,190
Service Provider Self Review	84.027							
080440		4,000	0	0	0	0	1,390	1,390
			0	0	0	0	1,390	1,390
Vocational Ed.-Basic Grants to States	84.048							
0735207012-8		886,293	886,293	303,203	0	303,203	0	0
0835208012-08		900,457	0	0	0	704,568	900,457	195,889
			886,293	303,203	0	1,007,771	900,457	195,889
Preschool Grant	84.173							
0604600506		188,171	17,021	7,734	0	7,734	0	0
0704600607		185,277	166,367	31,814	0	49,660	18,910	1,064
0704600708		185,073	0	0	0	116,830	181,294	64,464
			183,388	39,548	0	174,223	200,204	65,529
Infants and Toddlers	84.181							
071340190		193,510	159,861	40,691	0	74,340	33,649	0
081340190		193,685	0	0	0	142,160	182,193	40,033
			159,861	40,691	0	216,500	215,842	40,033
Safe and Drug Free Schools and Communities	84.186							
0728600506		82,332	70,630	1,902	0	1,902	0	0
0728600708		82,337	0	0	0	11,702	11,702	0
0828600708		80,742	0	0	0	80,707	77,407	(3,300)
			70,630	1,902	0	94,311	89,109	(3,300)

See accompanying notes to financial statements

BAY-ARENAC ISD  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2008

Federal Grantor or Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2007	Adjustments and Transfers	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued or (Deferred) Revenue at June 30, 2008
Title V LEA Allocation 0802500708	84.298	\$ 14,551	\$ 0	\$ 0	\$ 0	\$ 14,551	\$ 14,551	\$ 0
Title II, Part A, Improving Teacher Quality 0805200708	84.367	751	0	0	0	751	751	0
Passed through Delta College: Carl D Perkins Program, Tech-Prep Education 083540-7014-8	84.243	5,998	0	0	0	5,998	5,998	0
Passed through Other Educational Agencies:								
Title II	84.318	5,975	600	(494)	0	0	494	0
Reading First	84.357	18,567	0	0	0	13,077	13,077	0
			600	(494)	0	13,077	13,571	0
Passed through United Way of Bay County Parental Information and Resource Centers (PIRC) U310A040006	84.310	479,434	141,866	45,988	0	48,471	2,483	0
Total U.S. Department of Education			5,387,871	946,156	0	5,295,406	5,417,909	1,068,659
U.S. Department of Health and Human Services: Passed through Michigan Community Health Medicaid Assistance Program Title XIX Medicaid Administrative Outreach	93.778	162,388	0	0	0	162,388	162,388	0
Total U.S Department of Health and Human Services			0	0	0	162,388	162,388	0
Total Federal Financial Assistance			\$ 5,387,871	\$ 946,156	\$ 0	\$ 5,457,794	\$ 5,580,297	\$ 1,068,659

See accompanying notes to financial statements

BAY-ARENAC ISD  
Schedule Of Expenditures Of Federal Awards  
Provided To Subrecipients  
For the Year Ended June 30, 2008

<u>Federal Program Title/Subrecipient</u>	<u>Project Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Amount</u>	<u>Due to Subrecipient July 1, 2007</u>	<u>Current Year Transfer to Subrecipient</u>	<u>Subrecipient Federal Expenditures</u>	<u>Due to Subrecipient June 30, 2008</u>
Title V Innovative Programs Arenac Eastern Schools	0802500708	84.298	\$ 14,551	\$ 0	\$ 619	\$ 619	\$ 0
				0	619	619	0
Handicapped Preschool and School (IDEA) Bangor Township Schools	0704500607	84.027	3,785,300	18,252	0	18,252	0
				18,252	0	18,252	0
Handicapped Preschool and School (IDEA) Bangor Township Schools Bay City Public Schools Pinconning Area Schools	084500708	84.027	3,811,513	0	57,906	57,906	0
				0	279,236	279,236	0
				0	84,929	84,929	0
				0	422,071	422,071	0
Preschool Grant Bangor Township Schools Bay City Public Schools	0704600607	84.173	185,277	4,799	0	4,799	0
				2,172	0	2,172	0
				6,971	0	6,971	0
Preschool Grant Bangor Township Schools Bay City Public Schools Pinconning Area Schools	0704600708	84.173	185,073	0	19,689	19,689	0
				0	94,943	94,943	0
				0	28,877	28,877	0
				0	143,509	143,509	0
Handicapped Preschool and School Bay City Public Schools Essexville Community Schools Pinconning Area Schools	080490 TS	84.027	60,000	0	6,629	6,629	0
				0	1,080	1,080	0
				0	1,325	1,325	0
				0	9,034	9,034	0

See accompanying notes to financial statements.

BAY-ARENAC ISD  
Schedule Of Expenditures Of Federal Awards  
Provided To Subrecipients  
For the Year Ended June 30, 2008

<u>Federal Program Title/Subrecipient</u>	<u>Project Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Amount</u>	<u>Due to Subrecipient July 1, 2007</u>	<u>Current Year Transfer to Subrecipient</u>	<u>Subrecipient Federal Expenditures</u>	<u>Due to Subrecipient June 30, 2008</u>
Vocational Ed.-Basic Grants to States	0835208012-08	84.048	\$ 900,457				
Midland County ESA				\$ 0	\$ 114,718	\$ 114,718	\$ 0
Saginaw City Schools				0	520,645	520,645	0
				0	635,363	635,363	0
				\$ 25,223	\$ 1,210,596	\$ 1,235,819	\$ 0

See accompanying notes to financial statements.



BAY-ARENAC ISD  
Schedule of Prior Year Audit Findings  
For the Year Ended June 30, 2008

2007-1

Audit Finding:

A prior period adjustment was reflected in the current financial statements to record the effect of the non-recognition of salaries and related fringe benefits as well as grant revenues associated with these expenditures.

Corrective Action Taken:

Management has increased monitoring activities of interim and the year end reporting process.

**BAY-ARENAC ISD**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2008**

**NOTE 1 - BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Bay-Arenac ISD and is presented in the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations.

**NOTE 2 - SUBRECIPIENTS**

Of the federal expenditures presented in the schedule, Bay-Arenac ISD provided federal awards to sub-recipients as noted in the Schedule of Expenditures of Federal Awards Provided to sub-recipients.

**NOTE 3 - RECONCILIATION OF REVENUES REPORTED IN THE BASIC FINANCIAL STATEMENTS WITH EXPENDITURES OF FEDERAL AWARDS**

Current year expenditures per Schedule of Expenditures of Federal Awards	\$5,580,297
Subtract:	
Medicaid Administrative Outreach (reflected as local revenue)	<u>162,388</u>
Total revenues from federal sources per audit report	<u>\$5,417,909</u>

**NOTE 4 - OTHER DISCLOSURES**

Management has utilized the Grants Section Auditors Report and The Cash Management Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.



# WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS  
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October 13, 2008

To The Board of Education  
Bay-Arenac ISD  
Bay City, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bay-Arenac ISD for the year ended June 30, 2008 and have issued our report thereon dated October 13, 2008. Professional standards require that we provide you with the following information related to our audit.

## Our Responsibilities Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated July 14, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Bay-Arenac ISD's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Bay-Arenac ISD's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Bay-Arenac ISD's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Bay-Arenac ISD's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Bay-Arenac ISD's compliance with those requirements.

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# WEINLANDER FITZHUGH

Board of Education  
Bay-Arenac ISD  
October 13, 2008  
Page 2

## Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters on July 14, 2008.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Bay-Arenac ISD are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the 2008 fiscal year. We noted no transactions entered into by the ISD during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events.

Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the fixed asset depreciation is based on the estimated useful lives of the fixed assets. We evaluated the key factors and assumptions used to develop the useful lives of fixed assets in determining that it is reasonable in relation to the financial statements taken as a whole.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.



# WEINLANDER FITZHUGH

Board of Education  
Bay-Arenac ISD  
October 13, 2008  
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## *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. During the audit, there were no significant reclassification and audit adjustments required.

## *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

## *Management Representation*

We have requested certain representations from management that are included in the management representation letter dated October 13, 2008.

## *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

## *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the ISD's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education, management and others within the School District and is not intended to be and should not be used by anyone other than these specified parties.

*Weinlander Fitzhugh*